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Temporary Duty-free Imports of Tropical Oils

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Oilseeds and Products

Trade Policy Monitoring

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Report Highlights:

The Russian Government decided to keep duty-free bulk imports of tropical oils through May 31, 2009, for contracts concluded after March 12, 2009. However, starting June 1, 2009, import tariffs on these oils might increase to 10 percent on the request of the Interagency Government Commission on Protective Measures in Foreign Trade. This tariff increase was supported by the Russian dairy industry which was worried that cheap vegetable oils would replace milk fats in confectionary products and butter.

Executive Summary: In mid-April 2009 the Interagency Government Commission on Protective Measures in Foreign Trade recommended that the Russian Government impose a 10 percent import duty on tropical oils (shipped in bulk) starting June 1, 2009. However, the domestic food industry, the major consumer of tropical oils, succeeded in keeping the temporary duty-free bulk imports of palm, coconut, palm kernel and babassu oils for contracts concluded from March 12, 2009 through May 31, 2009. The relevant GOR Resolution #337 was issued on April 22, 2009, and came to force on April 28, 2009. In spite of increased prices of imported oils and increased domestic vegetable oil production in CY 2008, Russia imported 880,500 metric tons of tropical oils, 15 percent more than in CY 2007. By March 12, 2009 the exchange rate increased to 35.12 rubles per \$1 from 27.93

rubles on December 12, 2008, and from 23.86 rubles on March 12, 2008, and imports became even less competitive. If the Government agrees to set the 10 percent import tariffs, imports might decrease sharply and domestic prices of confectionary products will rise. The United States does not export tropical oils to Russia.

General Information:

The Russian Government Resolution #337 of April 22, 2009 extended duty-free regime for the bulk imports of palm, palm kernel, coconut and babassu oils through May 31, 2009. The regime applies to contracts concluded since March 12, 2009 (Attachment 1). Within the last 3 years, the Russian Government several times extended the temporary duty-free regime on imports of tropical oils for technical and industrial use (see GAIN RS8043 *Extension of Duty-free Bulk Imports of Tropical Oils*). Imports of these oils were increasing due to increased demand of Russia's growing confectionary, including ice cream, industries. In CY 2008 Russia imported 880,500 metric tons of tropical oils, a 15 percent increase from 2007, although prices of imported oils increased by 13 – 85 percent depending on the oil (Table 2).

On April 21, 2009, the Interagency Government Commission on Protective Measures in Foreign Trade and Customs-tariff Policy recommended that the Russian Government set, starting June 1, 2009, 10 percent import duty on tropical oils imported in bulk. The Commission justified the tariff increase by necessity to support both Russian milk fats and vegetable oils' producers, although these industries themselves compete for confectionary industry's demand. Starting summer 2008 domestic vegetable oil prices were decreasing, making domestic vegetable oil more competitive with imported oils in the market (see GAIN RS9027 *Russia: Oilseeds and Products Annual*). At the same time milk fats producers were complaining that cheap vegetable oil replaces milk fats in confectionary products, including ice cream and in butter. The Technical Regulation on Milk and Dairy Products (see GAIN RS8046 *Dairy and Products / Russia Changes Definitions of "Milk"*) does not set strict requirements for content of butter, and the dairy lobby intends to limit use of vegetable oil in confectionary and dairy products by increasing import tariffs on tropical oils.

Given that exchange rate of \$US increased from 23.86 rubles on March 12, 2008 to 27.93 rubles on December 12, 2008, and to 35.12 rubles per \$1 by March 12, 2009, ruble prices of imported tropical oils in March 2009 might be 47 percent higher than ruble prices in March 2008, and 26 percent higher than in December 2008. Additional 10 percent import tariff on tropical oils might increase tropical oils prices in rubles by over 60 percent compared with March 2008 prices. The threat of 10 percent tariff might stimulate duty-free imports in April and May 2009, and will result in accumulation of stocks of tropical oils. These stocks might temporary decrease demand in domestic vegetable oil and affect domestic crushing. However, if 10 percent tariff is adopted, by

the end of 2009 price of imported tropical oils may increase to prohibitive level. Russia's vegetable oil crushers may benefit from this increase, but the measure will be more in favor of dairy producers, and will result in significant increase in consumer prices of confectionary products, butter and some other food products.

Table 1. Temporary Import Tariffs on Palm Oil for Technical and Industrial Use (from HS number 1511), and on Coconut (Copra) Oil, Palm Kernel or Babassu Oil (from HS Number 1513)

Tariff Code of the Russian Federation (TN VED)	Name of Products	Tariff, percent of the customs value	
		Base tariff*	New temporary
Palm oil and its fractions, whether or not refined, but not chemically modified			
1511 10 100 0	- - for technical and industrial use, except for production of products, used in food consumption	5*	0
1511 10 900 9	- - - other	5*	0
1511 90 190 9	- - - - other	5*	0
1511 90 910 0	- - - for technical and industrial use, except for production of products, used in food consumption	5*	0
1511 90 990 9	- - - - other	5*	0
Coconut (copra), palm kernel or babassu oil, and fractions thereof, whether or not refined, but not chemically modified			
1513 11 100 0	- - -for technical and industrial use, except for production of products, used in food consumption	5*	0
1513 11 990 1	- - - - in boxes, barrels, cans and bins, net-weight 200 kg or less	5	5
1513 11 990 9	- - - - - other	5*	0
1513 19 190 1	- - - - in boxes, barrels, cans and bins, net-weight 200 kg or less	5	5
1513 19 190 9	- - - - - other	5*	0
1513 19 300 0	- - - - for technical and industrial use, except for production of products, used in food consumption	5*	0
1513 19 990 1	- - - - in boxes, barrels, cans and bins, net-weight 200 kg or less	5	5
1513 19 990 9	- - - - - other	5*	0
1513 21 100 0	- - - - for technical and industrial use, except for production of products, used in food consumption	5*	0
1513 21 900 1	- - - - in boxes, barrels, cans and bins, net-weight 200 kg or less	5	5
1513 21 900 9	- - - - - other	5*	0
1513 29 190 1	- - - - in boxes, barrels, cans and bins, net-weight 200 kg or less	5	5
1513 29 190 9	- - - - - other	5*	0

1513 29 300 0	- - - for technical and industrial use, except for production of products, used in food consumption	5*	0
1513 29 900 1	- - - - in boxes, barrels, cans and bins, net-weight 200 kg or less	5	5
1513 29 900 9	- - - - other	5*	0

* The base tariff on the bulk imports of tropical oils has almost never been applied, because duty-free regime has been extended several times for 9 months period. The base 5 percent import tariff was supposed to return on March 12, 2009.

Table 2. Imports of Tropical Oils and Average Prices in CYs 2007 and 2008

TN VED	Volume of Imports, Metric Tons		Average Prices, in \$US/MT		Price Change 2008/2007	Average CY 2008 Price in Rubles		
	CY 2007	CY 2008	CY 2007	CY 2008		Mar.12, 2008 exchange rate is 23.86 Ru/\$	Dec. 12, 2008 exchange rate is 27.93 Ru/\$	Mar. 12, 2009 exchange rate is 35.12 Ru/\$
1511 10 10	0	4	0	1,560		37,222	43,571	54,787
1511 10 90	4,412	361	620	700	13.36	16,702	19,551	24,584
1511 90 19	77,045	55,639	780	1,060	35.31	25,292	29,606	37,227
1511 90 91	6,346	7,912	820	1,110	35.43	26,485	31,002	38,983
1511 90 99	489,907	624,195	790	1,150	45.41	27,439	32,120	40,388
1513 11 10	541	1,943	1,020	1,340	31.01	31,972	37,426	47,061
1513 11 99	4,750	4,239	900	1,410	56.5	33,643	39,381	49,519
1513 19 19	17,802	34,084	640	1,080	68.48	25,769	30,164	37,930
1513 19 30	262	25	1,000	1,770	77.01	42,232	49,436	62,162
1513 19 99	112,859	75,915	560	1,030	85.29	24,576	28,768	36,174
1513 21 10	1,958	2,283	870	1,170	33.89	27,916	32,678	41,090
1513 21 90	13,019	16,911	910	1,200	31.61	28,632	33,516	42,144
1513 29 19	2,495	7,151	950	1,460	53.71	34,836	40,778	51,275
1513 29 30	295	1,429	1,120	1,360	21.51	32,450	37,985	47,763
1513 29 90	36,026	48,401	700	1,190	69.72	28,393	33,237	41,793

Source: World Trade Atlas and Post calculations